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FIRST COUNTRY COOPERATION FRAMEWORK FOR HUNGARY

CONTENTS

	Paragraphs	Page
INTRODUCTION	1	2
I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE	2 - 12	2
II. RESULTS AND LESSONS OF PAST COOPERATION	13 - 17	4
III. PROPOSED STRATEGY AND THEMATIC AREAS	18 - 24	5
IV. MANAGEMENT ARRANGEMENTS	25 - 29	6
Annex. Resource mobilization target table for Hungary (1997-1999)		8

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INTRODUCTION

1. Consultations between various government departments and private institutions took place during the first half of 1996, during which the fifth-cycle programme was assessed and the orientation of the present country cooperation framework (CCF) was elaborated. In the context of the preparation of the national human development report, current problems in human resources development and its relevance for Hungary's socio-economic development were addressed and discussed, with UNDP participation.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

2. Hungary's transition from a centrally planned economy to a market economy has involved important structural changes in the past few years. Although now recording modest gross domestic product (GDP) growth, the Hungarian economy experienced a four-year recession (1990-1993), during which GDP decreased by one fifth. Inevitably, the process of transition has had an impact on the welfare of individuals and their families, primarily through changes in the labour market - loss of jobs in the state sector, new employment opportunities in the private sector, the emergence of high unemployment and withdrawal from the labour market, deregulation of wages and growing wage dispersion - and disposable household incomes have on average declined. Hungary, being a small country, has a limited domestic market, and the share of exports in GDP is close to 30 per cent in the mid-1990s. Therefore, the external economic environment is of crucial importance for its economic growth. These are among the important reasons that Hungary has opted for membership of the European Union. Under its present associate membership status the country is preparing itself for full membership by, among other things, enhancing efficiency and competitiveness and adjusting its legal system to that of the European Union.

3. With regard to the UNDP priority areas for sustainable human development, a summary of the development situation in Hungary is presented below.

Governance

4. The transition to a parliamentary democracy was accomplished by peaceful means and in an orderly fashion throughout the course of 1989. A new political system, with a democratically elected Parliament, was established, and in the following years, important institutional changes were initiated by the Government, including decentralization of authority to local governments, reform of regulations, and reform of the civil service and personnel management. This ongoing process of transition has received a strong stimulus from Hungary's bid to become a full member of the European Union.

Poverty eradication

5. Structural changes in Hungarian society have led to increasing income disparities and growing relative poverty. In the period 1989-1993, the level of

poverty increased. Since then, the overall level of poverty has not increased drastically, but some deep pockets of poverty have developed. Some 500,000 (5 per cent of the population) are considered to be very poor, primarily pensioners, households whose head is unemployed and which do not receive unemployment insurance benefits, large families, and female-headed households. There is a strong inverse relationship between poverty and the level of education of the head of household. Secondary and higher education virtually guarantee a higher standard of living. Hungary's generous array of cash transfer programmes have prevented many households from falling into poverty, although their effectiveness as a poverty alleviation tool for the poorest groups ought to be improved. The change to a new economic system has also led to a weakening of the social safety net, driving people to the informal sector, where goods and services are cheaper.

6. As a result of the restructuring of the economy, regional disparities began to emerge in the early 1990s. Since the Budapest area and the western regions of the country were better equipped to face the transition and take advantage of new public and private investments, their economies fared better than those in certain eastern and northern regions, with a corresponding effect on the relative levels of poverty. In addition, the existence of a very important informal sector, while reducing poverty levels for certain categories of the population, has also helped to widen the gap between rich and poor.

Employment and sustainable livelihoods

7. Due to the structural changes in the Hungarian economy, unemployment started to become an issue in 1991 and had increased by mid-1993 to a total of 705,000 or 13.6 per cent of the workforce. Since then, the situation has improved gradually, and in December 1995, the unemployment rate fell to 10.2 per cent. While the current rate is fairly high by international standards, it is not much higher than the European Union average.

Environment

8. As elsewhere in Central and Eastern Europe, in Hungary, environmental issues have been neglected over the past decades. Although environmental legislation and regulations were in several respects stricter than in Western countries, they were rarely enforced. This has resulted in hazardous environmental conditions; for instance, air pollution by coal/lignite-fuelled power plants has become the greatest health hazard.

9. After the political changes in 1990, the need to address environmental problems received increased priority. The Government instituted some important changes and restructured and strengthened environmental institutions. The Ministry of Environment has responsibility for the formulation of environmental legislation and policy, coordination with other ministries, and implementation and enforcement of environmental measures.

10. Hungary, together with neighbouring countries, is paying special attention to developing regional policies to address strategic issues and recently adopted a law on regional development and physical planning that corresponds with European Union directives and policies.

Gender

11. In terms of Hungary's total population, 5.4 million (52.43 per cent) are women and 4.9 million (47.53 per cent) are men. The general educational level of women equals, and in certain areas exceeds, that of men. In higher education, women are very well represented. In the period 1993-1994, some 52 per cent of all university and college students were women.

12. Since 1990, the role of women as leaders in society has undergone remarkable changes. While during the period 1945-1980 Hungary had one of the world's highest proportion of women in Parliament (women held almost one third of the seats), their number has declined sharply since 1990, but in recent years, it has been on the rise again. Women play an important role in public administration. In 1994, approximately 68 per cent of civil servants and 42 per cent of senior civil servants were women. The average percentage of women in managerial positions in the country was lower, however, at approximately 30 per cent. One of the more striking trends emerging with progressing privatization is that women increasingly occupy posts in the poorly paid public sector, while men almost totally dominate key positions (97 per cent) in the private economic sectors, revealing a relative deterioration in the status of women in Hungarian society. Nevertheless, the role of women in the economy as a whole remains high, as they represent 50 per cent of the workforce.

II. RESULTS AND LESSONS OF PAST COOPERATION

13. During the fifth country programme for Hungary (DP/CP/HUN/5), UNDP cooperation focused initially on the following four areas: (a) private sector development; (b) management development; (c) environmental management; and (d) human development monitoring. Subsequently, the promotion of Hungary's integration into the European Union was added as an area of concentration, which was covered to a large extent by activities in the areas of private sector and management development.

14. Efforts to concentrate UNDP cooperation in fewer areas and to reduce the number of projects compared to the number in the previous cycle facilitated project management considerably, particularly in the absence of an established country office. In addition, in the period under review, and particularly since Hungary became an associate member of the European Union, there was an increasing focus on actions aiming to bring the country's legislation and institutional functions in line with European Union standards.

15. In the priority areas listed in paragraph 13 above, UNDP approved nine projects, which were financed from UNDP core resources in the amount of

$1,243,000 plus $30,000 from Special Programme Resources, for a total of $1,246,000. With respect to programme delivery, programme build-up was very slow. At the start of the country programme, there were no approved projects and only a few in an advanced stage of preparation, mainly because the period of preparation and start-up coincided with important economic and administrative changes in the country.

16. All projects except one (HUN/95/002, "Strengthening the Capacity of the National Committee for Technological Development") are scheduled to be completed at the end of 1996. In substantive terms, the programme has concentrated effectively on the main priority areas. However, since a systematic and joint UNDP/Government assessment of project operations and impact did not take place during the fifth cycle, it is recommended that special attention be given to such monitoring and evaluation of projects covered under the first CCF, especially with respect to substance and impact.

17. During the country programme review exercise, it was concluded that in order to enhance impact and manageability, future UNDP cooperation should be concentrated in a small number of projects. During the fifth cycle, much experience was gained with national execution, and it was determined that this mode of implementation should be extended to the whole programme. It was further recommended that UNDP should support Hungary in its efforts to eventually become a donor country, particularly after it has attained full membership status in the European Union.

III. PROPOSED STRATEGY AND THEMATIC AREAS

18. One of the foremost strategic objectives of the Government of Hungary government is the admission of the country as a full member to the European Union. The procedure for integration into the European Union requires a period leading up to full membership during which national legislation must be brought in line with current European Union legislation. The main challenge Hungary will face as an associate member of the European Union will be to make adjusted legislation work by changing government administrative machinery and by making the other institutional and procedural changes necessary to assume adequate implementation and enforcement of the adjusted legislative framework.

19. The UNDP mandate to promote sustainable human development can be achieved through regional integration. Considering the Government's strategic objective as outlined in paragraph 18 above, and the UNDP thematic priorities, including the mainstreaming of gender perspectives, and taking into account the development situation in the country, cooperation under the first CCF will focus on the priority areas presented below.

Governance and socio-economic policy

20. Within Hungary, emerging regional inequalities in development, affecting poverty levels and employment opportunities, require a governmental policy aimed

at supporting the regions that are lagging behind. The UNDP contribution in this area will be to assist in the preparation of an action plan for regional development, to be implemented in close coordination with other donor programmes, such as the Poland, Hungary Aid for the Reconstruction of the Economy (PHARE) programme of the European Union.

21. The effects of the growing informal sector (or "hidden economy") on social differentiation, poverty alleviation and employment creation have been highlighted in the national human development report. With UNDP support, a study of this phenomenon will be undertaken, which will contribute to the formulation of appropriate policies.

22. The modernization of the Hungarian economy and its integration into the European Union requires, among other things, scientific and technological development, environment-friendly sustainable economic growth and the adoption of European standards. These goals are being pursued under the coordination of the National Committee for Technological Development. Under the first CCF, UNDP continue and expands its existing cooperation with the National Committee through project HUN/95/002, "Strengthening the Capacity of the National Committee for Technological Development". UNDP will continue to focus on institution-building by increasing the operational capacity of the Committee as the central management body and source of data and information in the field of national technological cooperation. It will strengthen the Committee's capacity to provide private enterprise, as well as government institutions, with data permitting the adoption of environmentally sound technologies.

23. Another possible area of intervention will be to support the Government in further reform of the public administration.

Establishment of a national capacity for development cooperation

24. In this area of concentration, UNDP will help to facilitate the transition of Hungary from a recipient to a donor country. In the past, Hungary had provided limited technical assistance to some developing countries. Once Hungary is a full member of the European Union, it intends to enhance its role as a donor. UNDP will assist the country to prepare for this transition and will help to set up a framework for the management of future technical cooperation. Technical cooperation among developing countries (TCDC) activities will be initiated, particularly with other emerging economies, since Hungary has ample experience and consultancy capacity.

IV. MANAGEMENT ARRANGEMENTS

Execution and implementation

25. National execution will continue to be the normal modality for executing UNDP-assisted projects in Hungary, although the services of United Nations specialized agencies and the United Nations Office for Project Services for

specific components and budget lines will be sought as required. National project managers and financial officers will be provided with appropriate training on accounting and reporting, to ensure that accounting and auditing requirements are met.

26. The programme will be executed along the following lines:

(a) Approval of an umbrella project covering the implementation of studies related to governance and social economic policy;

(b) Continuing and expanding the existing cooperation to strengthen the capacity of the National Committee for Technological Development;

(c) Establishing the capacity for cooperation with other emerging economies or with developing countries. UNDP will assist in the development of a framework for technical cooperation along the lines of the TCDC programme, but with a particular focus on other emerging economies. The programme will focus on areas of specific Hungarian expertise and experience, with funding from core resources and various sources, including national contributions and contributions from cooperating countries.

27. Implementation modalities such as the United Nations Volunteer programme, Transfer of Knowledge Through Expatriate Nationals, United Nations Short-Term Advisory Services and TCDC will be used as appropriate, subject to the availability of funding. The Regional Bureau for Europe and the Commonwealth of Independent States sub-office in the region will backstop the programme, in close consultation with the government coordinating unit in the Ministry of Foreign Affairs. A UNDP national programme/administrative officer will be responsible for all daily managerial activities.

Monitoring, review and reporting

28. Projects will be reviewed to ensure that targets and benchmarks are fixed, and that they are fully results-oriented. Projects will submit progress reports according to UNDP requirements, namely, annual progress and performance and evaluation reports (or semi-annual for shorter duration projects, or if considered necessary), terminal reports at the end of the project, and technical reports as required, and will be subject to monitoring visits and tripartite review meetings.

Resource mobilization

29. In view of the limited UNDP resources available, particular attention will be paid to continuing efforts to mobilize additional resources through the attraction of cost-sharing contributions or trust funds. The Government is considering a cost-sharing contribution to the programme. Increased donor cooperation will be promoted.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR HUNGARY (1997-1999)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF carry-over	829	
TRAC 1.1.1	285	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
Other resources	344	In line with decision 95/23, paragraph 19.
SPPD/STS	43	
Subtotal	1 501 a/	
NON-CORE FUNDS		
Government cost-sharing	-	
Sustainable development funds	-	
Third-party cost-sharing	-	
Funds, trust funds and other	-	
Subtotal	-	
GRAND TOTAL	1 501 a/	

a/ Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: IPF = indicative planning figure; SSPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignments from the core.